



## **STAKEHOLDER GROUP MEETING – SYNOPSIS**

**MEETING DATE: 6/02/2008**

**ATTENDEES:** COUNCILMEMBER PETE CONSTANT, CHAIR

**MEMBERS:** LORIE BIRD, ELIZABETH BRIERLY, BOB BROWNSTEIN, YOLANDA CRUZ, PATRICIA GARDNER, HOOSHANG HOMARA, JOSHUA HOWARD, CHARLES JONES, STEVE MOORE, DAVE PERSSELIN, ED RAST, JEFF RUSTER, JAN SCHNEIDER, RANDY SEKANY, BUU THAI, SUZANNE WOLF

**ABSENT:** CARL COOKSON, PAT DANDO, ERNIE GIACHETTI, MICHELLE LEW, BOBBY LOPEZ, KEN WILLEY

**STAFF:** DEBRA FIGONE, CITY MANAGER, JOHN WEISS, REVEVELOPMENT AGENCY, JANE LIGHT, CITY MANAGER'S LIAISON, KIP HARKNESS, FACILITATOR.

### **Welcome/Introductions/Process Overview**

- Councilmember Constant called the meeting to order at 6:07 p.m. by welcoming everyone. Suggestions submitted by Stakeholders will be reviewed tonight. There is no "deadline" to submit suggestions; they can continuously be submitted to the Chair.
- The group discussion will be facilitated by Kip Harkness tonight.
- Updates from City Manager Figone
  - Stakeholders and attendees at tonight's meeting received a copy of a memo distributed on Friday, May 30 titled "Beyond Budget Cuts."
  - The structural budget elimination strategy recommends a three-pronged approach to 1) generate revenues, 2) reduce services, and 3) strategies to "change the way we do business."
  - Urgent strategies discussed in prior Stakeholder meetings were one way to accomplish these goals.
  - "Beyond Budget Cuts" Memo outlined a plan for "changing the way we do business" approach; David Osborne's Public Strategies group has been hired to identify ways the City can improve customer satisfaction, efficiency, performance, and adaptability.
  - David Osborne is the author of Reinventing Government, The Price of Government and other books relating to transforming public organizations.
  - Stakeholders and attendees also received a copy of Manager's Budget Addendum #4 presented to the City Council on May 16. The Council concurred with

- Recommendations to continue with some revenue strategies analysis; many were not recommended for further consideration.
- Conversations with Stakeholders were key to identifying which strategies to forward.
- Thank you to Lorie Bird and Bob Brownstein for attending the Study Session and addressing the Council.
- Will initiate public opinion polling in regards to potential revenue measures for the November 2008 ballot —Fairbank, Mauslin, Maulin & Associates will conduct polling this week.
- The administration will present polling results to the City Council on June 19, and will expect Council direction on which measures to move forward with.
- Councilmember Oliverio is present tonight as an audience member.

### **Budget Strategy Exercise**

- Kip Harkness facilitated this exercise.
  - Ground Rules: Listen, Be Curious, and Speak with Kindness; stakeholders to refer to the “General Fund Structural Deficit Elimination Plan Strategy Development” sheet for discussion topics
  - Strategy suggestions reflect those emailed to the Chair and those included in the San Jose Excels! Report. They have been sorted by theme (e.g. Asset Management, Land Use, Budget Policies), and Stakeholders Group will review three themes tonight:
    - Budget Policies; combined with
    - Budget Reform, and
    - Capital Improvement and Infrastructure Maintenance
  - Three Criteria to consider while reviewing suggestions:
    - Is it a clear strategy?
    - Does it have potential to significantly reduce the General Fund Budget Deficit?
    - Can it be implemented within three years?

Some suggestions submitted by Stakeholders were questions, policy directions, etc. Those will be listened to, or have already been discussed. Asset Management strategies have already been discussed and have moved forward to the analysis or implementation stage. For these reasons, they will not be discussed.

Councilmember Constant reminded the group to focus on the advantages and concerns of the strategies and not implementation. Stakeholders who recommended a strategy can help start off concept to explaining to the group their suggestion.

**Stakeholder Process Question:** Will the group discuss the themes by alphabetical order?  
Answer: Tonight, yes.

**Stakeholder Process Question:** Is group going to discuss the remaining strategies identified by Management Partners?

Answer: Yes, but tonight is about new ideas, especially those recommended by Stakeholders.

As Chair, Councilmember Constant wanted to break up the order so as not to have Management Partners/City ideas dominate the discussions and include Stakeholder ideas early in the process.

## DISCUSSION OF STRATEGY THEMES

### THEMES: Budget Policies and Budget Reform

|                 |  |  |    |                                      |
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| <b>STRATEGY</b> | <p><i>Direct the City Auditor's Office to examine the annual proposed budget for accuracy and potential savings, to review department performance and recommend improvements, and to evaluate grants received from external sources to assure the city is maximizing revenue and payment for overhead. (SJ Excels!)</i></p> <p><u>And</u></p> <p><i>Hire an outside auditor or use the city auditor to review the budget and make independent analyses and recommendations (like the Legislative Analyst's Office does for the state budget). (Michelle Lew)</i></p> |  |    |                                      |
|                 | <b>ADVANTAGES</b>  |  |    | <b>CONCERNS</b>                      |
| 1.              | Value of outside perspective (non-governmental)  |  | 1. | New Auditor is still from government |
| 2.              | Ability to focus on what is most critical  |  |    |                                      |
| 3.              | Ability to pursue where most financial gain could be realized  |  |    |                                      |
| 4.              | Auditor is new and could be considered an "outside perspective"  |  |    |                                      |
| 5.              | Agree that City staff should take ownership of changes; rather than outsiders creating laundry list and then staff having to do it   |  |    |                                      |
| 6.              | Scope of engagements of outsiders are identifying ideas and implementation—maybe compensation is linked to success of ideas  |  |    |                                      |

**Stakeholder Question:** Santa Clara County has outside Auditor doing budget and staffing analysis saving approximately \$27 million in the hospital/health care area—does the City have this type of outside auditing?

**Response** (City Manager Figone): Sharon Erickson is our City Auditor and her office serves as our Internal Performance Auditor to annually conduct performance audit (outside auditors do

financial work); Ms. Erickson develops a work plan that the City Council approves. There are two types of Audits:

- Performance
- Financial

City Manager Figone agrees that external auditors provide good perspective but should not be relied upon exclusively; in addition, the City Manager is ultimately accountable to the Council and wants to create an organizational culture which supports both internal and external audits as a means to improve City services, rather than instill fear and distrust in management or staff.

**Stakeholder Follow-up Question:** Would the City use outside auditors now, given the budget issues? Doesn't see same value coming from outside auditor versus internal; would like to continue talking about it—not City-wide, but for specific areas of high personnel costs, for example, for programs with high personnel costs or a history of budget over-runs.

**Stakeholder Comment:** Rather than audit, are we talking about outside expert knowledge? Isn't that the role of Management Partners? Would like to suggest a broader term beyond auditors to include use of outside experts to review particular areas.

| STRATEGY |   | <i>Perform a special review of the projected fund balance and/or it can employ contingency budgeting (expenditure priorities if there is an excess balance). If no excess balance occurs, the expenditures aren't implemented.</i> |   |
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|          | ADVANTAGES  |  | CONCERNS  |
| 1.       | Engage workforce in finding ideas/solutions to prevent "crying wolf" in Spring and then funds in Fall are found | 1.   | Concern that financial situations change within year—need flexibility to deal with changes  |
| 2.       | Allows public input in process: more open   | 2.   | Contingency budgeting: could set expectation for funding that would not occur; need to manage concerns  |
| 3.       | Ability to see all at once while whole community is paying attention  | 3.   | Use of outside performance audits: potential consultants are not neutral about how governments function; specifically what outsiders view versus community views/values |
| 4.       |   | 4.   | Contingency spending: to do list creates unnecessary spending; if priority then budget for it;  |

**Stakeholder Question/Comment:** Previous Mayor/Administration had a list of projects and programs which prioritized use of ending fund balance—does this list still exist?

**Response** (Councilmember Constant): Ending fund balance can be a good thing—but how closely can you project balances and consequences to organization and community; policy has changed and now current policy dedicates 50% to economic uncertainty reserve and 50% street maintenance.

| STRATEGY |  | <i>Adopt a budget policy that no additions can be made to the existing city services or projects unless the City Council has made a finding in public session that the proposed addition is of greater importance than bringing basic services to a satisfactory level.</i> |  |          |
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|          | ADVANTAGES   |   |  | CONCERNS |
| 1.       | Clearly illustrates opportunity costs of new funding are for community                       |   |  |          |
| 2.       | Helps define core services of City; identify areas to fully fund areas before funding others |   |  |          |
| 3.       | Allows prioritizing core services as well—clear we cannot fund everything                    |   |  |          |
| 4.       | Also helps identify satisfactory level of services and to whom within city stakeholders      |   |  |          |
| 5.       | Allow if discussed community views are being met   |   |  |          |

| STRATEGY |  | <i>Institute the use of benchmarking to ensure that that the city is operating up to industry wide standards of effectiveness. (Bob Brownstein)</i><br><br><u>And</u><br><br><i>Institute the use of benchmarking to establish performance targets for departments while providing staff at all levels with opportunities to suggest innovations to achieve specified objectives. (SJ Excels!)</i> |  |  |
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|          | ADVANTAGES   |  |  | CONCERNS   |
| 1.       | Benchmarking should include external standards—localities and private                                      | 1.   |  | Watch out for “apples versus oranges” comparison in benchmarking                   |
| 2.       | Best in Class cities—national and local: better “bang for the buck” then consultants to partner with other | 2.   |  | Distinction between 5&6: external benchmarking versus internal performance measure |

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|  | agencies |    |   |
|  |          | 3. | Benchmarking should be related to both performance and cost; is what City doing more expensive                                  |
|  |          | 4. | Best in Class: look outside of own industry—similar services provided by public and private sector – where most cost effective? |
|  |          | 5. | Existing structure which can be used and invigorated a bit  |

**Stakeholder Comment:** Would like to distinguish between benchmarking institution-wide versus auditing, which is targeted.

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| <b>STRATEGY</b> |                                      | <b><i>Join with other jurisdictions to leverage buying power and reduce costs for standard purchases.</i></b> |   |
|                 | <b>ADVANTAGES</b>                    |   | <b>CONCERNS</b>   |
| 1.              | Volume discounts, economies of scale | 1.  | Loss of autonomy and community provided and flexibility needed. |

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| <b>STRATEGY</b> |                   | <b><i>Allow funds currently earmarked for public art to be used for any arts infrastructure project in the city, such as the construction of performance or exhibit space.</i></b> |   |
|                 | <b>ADVANTAGES</b> |  | <b>CONCERNS</b>   |
| 1.              |                   | 1.   | Concern about moving from public art to funding art in private spaces |
|                 |                   | 2.   | Should not be an either/or item                                       |

**Stakeholder Comment:** Would like to encourage private art which is publicly exhibited: not using taxpayer dollars; but that would not provide a source of significant General Fund savings.

| STRATEGY |            | <i>Adopt open government proposals that allow residents to meaningfully participate in city decision-making.</i> |    |   |
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|          | ADVANTAGES |  |    | CONCERNS  |
| 1.       |            |  | 1. | Which residents? Those with concerns or those who have special interests? |
|          |            |  | 2. | What are costs to include?  |

| STRATEGY |   | <i>Defer approval of capital projects unless resources for necessary operations and maintenance have been identified.</i> |    |   |
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|          | ADVANTAGES  |   |    | CONCERNS  |
| 1.       | Proposal is how private business makes its decisions, City should too |   | 1. | Funding sources (state and federal) take capital but not operational; puts possible funding at risk |
| 2.       | Forces more comprehensive analysis of project before decision         |   | 2. | What are costs to include?  |

| STRATEGY |  | <i>Implement a two-year operating and project budgets cycle, like the City of Sunnyvale.</i> |  |          |
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|          | ADVANTAGES   |  |  | CONCERNS |
| 1.       | Process of budgeting would focus on core services on longer term; mid-year focus on just what is necessary |  |  |          |
| 2.       | Forces longer term perspective   |  |  |          |

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| <b>STRATEGY</b> |   | <i>The City should perform a careful analysis of public subsidies for events (Grand Prix) or projects (new scoreboard for the Arena) to ensure that there is an adequate return for the taxpayer's investment.</i> |    |                               |  |
|                 | <b>ADVANTAGES</b>   |  |    | <b>CONCERNS</b>               |  |
| 1.              | Needs solid analysis consistently to establish return to General Fund                 |  | 1. | Very difficult to do analysis |  |
| 2.              | If done consistently may make sense to have staff specific to doing that type of work |  |    |                               |  |

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| <b>STRATEGY</b> |  | <i>Establish a Technology Advisory Council through which Silicon Valley business leaders suggest ways the city can use technology to improve efficiency.</i> |    |   |  |
|                 | <b>ADVANTAGES</b>  |  |    | <b>CONCERNS</b>                                     |  |
| 1.              | Outside perspective to help identify leading edge areas where City could be a part of                    |  | 1. | Caution of additional costs associated with changes |  |
| 2.              | Many technologies which City can utilize now; many opportunities that don't require hardware investments |  |    |   |  |

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| <b>STRATEGY</b> |  | <i>The city should establish fiscal plans that identify the timeline under which residents can expect relatively small scale improvements in services and infrastructure and the level of increased revenues that will be required before large scale expansions of infrastructure or services can be achieved. For example, what kind of new revenues would be needed to finance an addition of 300-400 new police officers?</i> |  |                 |  |
|                 | <b>ADVANTAGES</b>  |   |  | <b>CONCERNS</b> |  |
| 1.              | More information allows for good decisions; how can make good decisions unless have realistic assessment of what being spending now in comparison to services provided |   |  |                 |  |
| 2.              | Relates to Deficit: because see what revenues needed to provide services requested   |   |  |                 |  |



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| 3. | Would eliminate community "frenzy" and lessen pressure of constituents to Council members because would get information they need/to understand |  |  |
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| STRATEGY |  | <i>Spending reform implemented by the city to avoid future deficits. (Should look at Governor Schwarzenegger's plan and see if it could be applied to the City.)</i> |  |
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|          | ADVANTAGES   |  | CONCERNS   |
| 1.       | Resist temptation to institutional spending in good years                      | 1.   | Overall concern of formulaic spending; (1) must ensure place starting from is a good one (that finding is currently adequate); (2) Making decisions about amount of spending does not account for circumstances changing over time |
| 2.       | Creating limit on spending—idea is smoothing revenue over time rather than cap | 2.   | Does it encourage manipulation of budgeting?   |

**Stakeholder Comment:** Idea is to create spending limit—can't increase anymore than average of last four years revenues to spread over spikes in economy and levels out spending on a longer terms basis; adopt budget process to avoid swings currently seen.

**THEME: Capital Improvement and Infrastructure Maintenance**

Councilmember Constant reminded the Stakeholders Group that it has already discussed some of the Capital Improvement and Infrastructure Maintenance strategies in past sessions.

| STRATEGY |   | <i>Evaluate whether bonds for capital projects can include funds for the basic physical maintenance of the facility (painting, resurface driveway, roof repair/replacement, etc.) during the period of debt service.</i> |   |
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|          | ADVANTAGES  |  | CONCERNS  |
| 1.       | Good for all capital projects; establish present value for cost of maintenance and should be part of overall project cost; add it to bond size for voter approval | 1.   | Using special assessments should track with service delivery area: citywide versus neighborhood |
| 2.       | Laws should not be seen as entire obstacle—versus constitutional  | 2.   | Separate out projects which are for overall economic development benefit                        |

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|  | obstacles—add to legislative goals area |  |    | versus community benefit  |
|  |   |  | 3. | Don't think okay to take loan out for O&E; should be in yearly operating budget |

**Stakeholder Comment.** State restrictions on General obligation bonds only allow for acquisition of land or for construction; IRS regulations generally exclude the use of bond funds for almost anything except capital costs; special tax districts are a potential idea; City can have lease agreements for outside management which can help fund Operations & Management although may still have restrictions.

(Discussion broadened to include ideas of supplementary special districts to fund Operations & Maintenance.)

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| <b>STRATEGY</b> |  | <i>Place before the voters the option of creating a budget stabilization reserve, to be created out of one-time revenues or budget surpluses. No more than .5% of the General Fund per year shall be added to the reserve, and the reserve shall never exceed 1% of the General Fund. Proceeds from the fund shall only be used to retain city staff during cyclical budget downturns.</i> |    |   |
|                 | <b>ADVANTAGES</b>                          |  |    | <b>CONCERNS</b>   |
| 1.              | Help smooth out spikes in revenue and save |  | 1. | .5% is small amount to smooth out (\$10M) especially to save jobs if that is the concern; better with 3-5%                    |
| 2.              | Good to have "rainy day" fund              |  | 2. | Going farther for voter approval; couldn't it be done by Council policy? Would provide more flexibility for changes in future |
|                 |  |  | 3. | Voter approval intent to guard funds for reserve only and not spent by CC   |
|                 |  |  | 4. | Proceeds only to be used to retain city staff; would like more flexibility in its use   |
|                 |  |  | 5. | Suggest fund should be to protect core services—define "rainy day"  |

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| <b>STRATEGY</b> |  | <i>Evaluate the possibility of small size parcel taxes to be applied to Council Districts or even smaller parts of the city to pay for priorities chosen by the residents of those areas. This strategy could be used for services not suitable for assessment districts.</i> |  |
|                 | <b>ADVANTAGES</b>  |   | <b>CONCERNS</b>  |
| 1.              | More specific districts can be the greater the chance to get passed but                                  | 1.  | Concern about equity for districts which are lower income areas—would limit their services—areas can tax themselves to higher services |
| 2.              | Laws should not be seen as entire obstacle—versus constitutional obstacles—add to legislative goals area | 2.  | More narrow areas also raises administrative costs   |

**Stakeholder Comment:** What can and cannot be used for special assessments: general services versus special services: but what if neighborhood wants higher level of core service—can have dedicated parcel tax

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| <b>STRATEGY</b> |                   | <i>Finance improvements on major roadways and arterials with developer fees, where improvements are made necessary by a specific project; with RDA funds where improvements produce primary benefit to a Project Area; and with construction taxes. Offer residents the opportunity to finance additional improvements with General Obligation bonds.</i> |  |
|                 | <b>ADVANTAGES</b> |   | <b>CONCERNS</b>  |
| 1.              |                   | 1.  | Concern with theme to raise expenses of living/working, etc in City; causes development to be delayed or not occur; does it discourage development, jobs, etc—look more at saving money then increasing revenues |
| 2.              |                   | 2.  | Chair: nexus arguments go too far—don't use it to create special policies to create special revenues and applied fairly  |
|                 |                   | 3.  | Cannot spend redevelopment dollars outside redevelopment project areas not done easily or often  |

**Stakeholder Comment:** Can City lease city streets?

**Response** (Councilmember Constant): Would need to be revenue generating streets and already accomplishing a fair bit of strategy already through current City policy regarding development-related costs.

**THEME: Land Use**

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| <b>STRATEGY</b> | <p><i><b>Draft a provision in the City General Plan that all major Specific Plans such as Evergreen, Coyote Valley, etc. shall include mechanisms to insure that the new development pays for associated new municipal infrastructure and that taxes and fees from the new development pay for the delivery of basic city services. The choice of funding mechanism can be tailored to the characteristics of the Specific Plan.</b></i></p> <p><u><b>And</b></u></p> <p><i><b>Require that all major land use Specific Plans shall have, at worst, a neutral impact on the city General Fund.</b></i></p> |    |  |
|                 | <b>ADVANTAGES</b>  |    | <b>CONCERNS</b>  |
| 1.              | Expanded idea: know exactly what future costs and revenues will be prior to approval of project  | 1. | Projects don't occur in vacuum and may meet other goals (reach critical mass for BART expansion) |
|                 |  | 2. | Distinction between projects versus specific plans   |

**Stakeholder Comment:** Also include major/large development projects into strategy

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| <b>STRATEGY</b> | <p><i><b>Clarify the city's policy regarding the rezoning of industrial land for residential uses to indicate that "extraordinary benefit" means benefits to the city's General Fund.</b></i></p> |    |  |
|                 | <b>ADVANTAGES</b>   |    | <b>CONCERNS</b>  |
| 1.              | Making decisions based on whether it's a GF benefit specifically  | 1. | No definition of "extraordinary benefit;" not an objective measure |

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| <b>STRATEGY</b> | <p><i><b>San José should implement land use policies and capital budget plans that enhance Smart Growth but do not burden the city's General Fund operating budget or cause reductions in city services.</b></i></p> |  |                 |
|                 | <b>ADVANTAGES</b>  |  | <b>CONCERNS</b> |

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|--|-------|--|--|-------|
|  | None. |  |  | None. |
|--|-------|--|--|-------|

**Stakeholder Comments:** Developing new neighborhoods can be drain on GF revenues via demand for services, regardless of potential job creation or revenue generated by businesses, homes and residents. This is why so many cities are facing structural budget deficits.

**Next Steps**

- For future meetings, Management Partners and Stakeholder Strategies will be grouped to focus on particular themes during meetings.
- Please provide more ideas/comments soon, as future meetings will be topic-oriented.
- June 16 meeting is cancelled and replaced with a meeting on June 23, at the Dr. Martin Luther King Jr. Library from 6-9 PM on the 2<sup>nd</sup> floor in the meeting suites, Rooms 225/229.
- Budget deficit elimination strategies can be emailed to [pete.constant@sanjoseca.gov](mailto:pete.constant@sanjoseca.gov), and please type "Stakeholder Group" in the subject line. Councilmember Constant will forward questions to Administration.

Meeting was adjourned at 8:52 p.m.